 <b>Office of Credit Unions</b> <b>Policies and Procedures</b>	<b>POLICY NUMBER</b>
	<b>10345-A</b>
<b>LENDING</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
<b>SUBJECT</b>	<b>REVISION DATE</b>
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## I. PURPOSE

The requirements of the Commercial Loan policy must comply with all state and federal regulations regarding commercial loans. Management must ensure controls are in place to monitor and mitigate risks and ensure the level of risk is acceptable for the credit union. Examiners should review the levels of credit, concentration, and interest rate risk in the commercial loan portfolio and determine if the Board of Directors understands the risk in these loans and provides sufficient oversight. Examiners should also review management and staff experience, expertise and resources to ensure they are sufficient to manage the commercial loan portfolio.


## II. REQUIREMENTS:

The credit union's Commercial Loan Policy must comply with the requirements of Part [723.4](#) of the NCUA Rules & Regulations. The policy must address the following, at minimum:

1. Type(s) of commercial loans permitted.
2. Trade area.
3. Maximum amount of assets, in relation to net worth, allowed in secured, unsecured, and non-guaranteed commercial loans and in any given category or type of commercial loan and to any one borrower or group of associated borrowers. The policy must specify that the aggregate dollar amount of commercial loans to any one borrower or group of associated borrowers may not exceed the greater of 15 percent of the federally insured credit union's net worth or \$100,000, plus an additional 10 percent of the credit union's net worth if the amount that exceeds the credit union's 15 percent general limit is fully secured at all times with a perfected security interest by readily marketable collateral as defined in [§723.2](#) of this part. Any insured or guaranteed portion of a commercial loan made through a program in which a federal or state agency (or its political subdivision) insures repayment, guarantees repayment, or provides an advance commitment to purchase the loan in full, is excluded from this limit.
4. Qualifications and experience requirements for personnel involved in underwriting, processing, approving, administering, and collecting commercial loans

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5. Loan approval processes, including establishing levels of loan approval authority commensurate with the individual's or committee's proficiency in evaluating and understanding commercial loan risk, when considered in terms of the level of risk the borrowing relationship poses to the federally insured credit union.
6. Underwriting standards commensurate with the size, scope and complexity of the commercial lending activities and borrowing relationships contemplated. The standards must, at a minimum, address the following:
  - a. The level and depth of financial analysis necessary to evaluate the financial trends and condition of the borrower and the ability of the borrower to meet debt service requirements;
  - b. Thorough due diligence of the principal(s) to determine whether any related interests of the principal(s) might have a negative impact or place an undue burden on the borrower and related interests with regard to meeting the debt obligations with the credit union;
  - c. Requirements of a borrower-prepared projection when historic performance does not support projected debt payments. The projection must be supported by reasonable rationale and, at a minimum, must include a projected balance sheet and income and expense statement;
  - d. The financial statement quality and the degree of verification sufficient to support an accurate financial analysis and risk assessment;
  - e. The methods to be used in collateral evaluation, for all types of collateral authorized, including loan-to-value ratio limits. Such methods must be appropriate for the particular type of collateral. The means to secure various types of collateral, and the measures taken for environmental due diligence must also be appropriate for all authorized collateral; and
  - f. Other appropriate risk assessments including analysis of the impact of current market conditions on the borrower and associated borrowers.
7. Risk management processes commensurate with the size, scope and complexity of the federally insured credit union's commercial lending activities and borrowing relationships. These processes must, at a minimum, address the following:
  - a. Use of loan covenants, if appropriate, including frequency of borrower and guarantor financial reporting;
  - b. Periodic loan review, consistent with loan covenants and sufficient to conduct portfolio risk management. This review must include a periodic re-evaluation of the value and marketability of any collateral;

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- c. A credit risk rating system. Credit risk ratings must be assigned to commercial loans at inception and reviewed as frequently as necessary to satisfy the federally insured credit union's risk monitoring and reporting policies, and to ensure adequate reserves as required by generally accepted accounting principles (GAAP); and
- d. A process to identify, report, and monitor loans approved as exceptions to the credit union's loan policy.